

Message Text

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ACTION EUR-12

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E.O. 11652: N/A

TAGS: ECON, MIL, NATO

SUBJ: ECONADS: EFFECTS OF INFLATION ON DEFENSE EXPENDITURES OF
NATO MEMBER COUNTRIES - REINFORCED MEETING OF 2 OCT 1975

DEPARTMENT PASS DOD/ISA FOR MR. WILLIAM GEORGE

REF: USNATO 5427

1. AT OCTOBER 16 MEETING, ECONOMIC COMMITTEE AGREED TO APPLY
SILENT APPROVAL PROCEDURE TO DECISION SHEET AC/127-R/479, OCT. 14,
DEALING WITH OCTOBER 2 EXPERTS MEETING. IF NO CONTRARY COMMENTS
ARE RECEIVED BY OCT. 27, TEXT WILL BE CONSIDERED APPROVED:

BEGIN TEXT:

THE COMMITTEE

(1) HAVING REVIEWED NATIONAL CONTRIBUTIONS IN WHICH A DEFENCE
DEFLATOR WAS CALCULATED FROM TWO SEPARATE DEFLATORS,
NOTED THAT THE METHOD FOR CALCULATING THESE INDICES
MIGHT BE IMPROVED DESPITE SOME DIFFICULTIES THAT HAVE
BEEN STRESSED DURING DISCUSSIONS BY THE EXPERTS;

(2) NOTED THAT IN PARTICULAR THE CALCULATION OF A PRICE INDEX
APPLYING TO PERSONNEL EXPENDITURE SHOULD BE IMPROVED
THROUGH A MORE DETAILED BREAKING DOWN OF PERSONNEL CATE-
GORIES AND THROUGH CURRENT YEAR WEIGHTINGS THAT ARE MORE
ACCURATE THAN A BASE YEAR WEIGHTING OVER THE PERIOD UNDER

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CONSIDERATION:

(3) NOTED THAT THERE ARE DIVERGENCES AMONG EXPERTS ON THE
ADVISABILITY OF CALCULATING OR ADOPTING AN INDEX OF
PRODUCTIVITY APPLYING TO MILITARY PERSONNEL AND THAT

IT IS CONSEQUENTLY MORE SUITABLE AT THIS STAGE TO DIS-
REGARD THIS FACTOR;

(4) ASSERTED THAT OWING TO THE HETEROGENEOUS NATURE OF OTHER
DEFENCE EXPENDITURE, THE APPLICATION TO THE LATTER OF
PRICE INDICES DRAWN FROM CERTAIN AGREGATES OF NATIONAL
ACCOUNTS WUULD LACK REFINEMENT AND THAT IT WOULD BE MORE
APPROPRIATE AT THIS STAGE TO BUILD A COMBINED PRICE INDEX
FROM SUB-INDICES APPLYING TO ANUMBER OF CATEGORIES OF
EXPENDITURE TO BE DETERMINED IN EACH COUNTRY; ASSERTED
ALSO THAT IN THIS RESPECT A SPECIFIC PRICE INDEX SHOULD
BE APPLIED TO IMPORTED MILITARY GOODS WOING TO THEIR
SIGNIFICANT SHARE IN THE DEFENCE EXPENDITURE OF SOME
COUNTRIES;

(5) NOTED A STATEMENT BY THE TURKISH REP IN WHICH
THE ATTENTION OF THE COMMITTEE WAS DRAWN TO THE PROBLEM
ARISING FROM THE USE OF A UNIFORM METHODOLOGY GIVEN THE
ECONOMIC STRUCTURE OF HIS COUNTRY. HE ALSO PROVIDED
INFORMATION ON THE CONSTRUCTION OF A WHOLESALE PRICE
INDEX USED AS A DEFENCE DEFLATOR BY TURKEY IN REPLIES
TO THE ANNUAL DEFENCE PLANNING QUESTIONNAIRE;

(6) INVITED THE INTERNATIONAL STAFF

- TO PREPARE A DETAILED REPORT ON RESULTS FROM
NATIONAL CONGRIBUTIONS AS WELL AS AN ANALYSIS ON
A COMPARATIVE BASIS OF ADJUSTMENTS AND ALTERNATIVES
THAT WERE DISCUSSED DURING THE MEETING;

- TO FORWARD THIS REPORT TO THE COMMITTEE FOR COMMENTS
AND, IF NEEDED, CORRECTIONS TO BE MADE BY THE EXPERTS;

(7) INVITED THE INTERNATIONAL STAFF THEN TO PREPARE FOR SUB-
MISSION TO THE COUNCIL A NOTE OF THE RESULTS AND COMMENTS
THAT COULD BE USED IN THE WORK UNDERTAKEN IN NATO ON
DEFENCE EXPENDITURE.

END TEXT:

2. ACTION REQUESTED: PROMPT REVIEW BY MESSRS. GEORGE AND WAITE AND,
IF CONSIDERED NECESSARY, TRANSMISSION OF ANY CORRECTIONS OR COMMENTS
FOR RECEIPT BY USNATO MORNING OF OCT 24, IN VIEW OF VETERANS DAY
HOLIDAY, OCT 27. STREATOR
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